

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 15, 2002

The Capital Projects and Bond Oversight Committee met on Monday, April 15, 2002, at 8:30 AM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senators Tom Buford, Bob Jackson, and Robert Leeper, Vice-Chairman; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Guests testifying before the committee: Jim Abbott, Tom Howard and Commissioner Armond Russ, Finance and Administration Cabinet; Bill Hintze, Governor's Office for Policy and Management; and Debby Milton, Kentucky Infrastructure Authority.

Representative Marcotte made a motion to approve the minutes of the March 18 meeting as submitted. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon called on Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. She noted the first item, correspondence from the Council on Postsecondary Education (CPE), is a report of two additional projects approved by CPE as eligible for the agency bond pool proposed in the 2002-04 budget and an update on student fire safety at public postsecondary institutions. The second item, correspondence from Gary Cox, President of the Association of Independent Kentucky Colleges and Universities, is the response to

the committee's request for a report relating to fire safety plans at private postsecondary institutions. Dr. Cox's report focused on dormitories that are four stories or more since the state building code requires sprinklers installations on those. The private institutions have 27 dormitories that are four stories or more, and seven of those have no sprinklers. He indicated that those seven facilities will be upgraded to sprinklers when they are renovated.

Senator Jackson asked the committee to invite Dr. Cox to attend the May meeting to further discuss fire safety plans at the private postsecondary institutions, and to provide the committee with a timetable for installation of sprinklers in the seven dormitories. The chairman directed staff to ask Dr. Cox to the committee's next meeting.

The next items reviewed were quarterly construction reports, with a new report from Western Kentucky University on the status of Diddle Arena renovations authorized by 2002 Senate Bill 54. Ms. Collins said the bonds for Diddle Arena have not been sold; however, the city and WKU met last week and decided a 24 year term bond will be used. The city plans this week to file a Declaratory Action in Warren Circuit Court seeking court approval of the bonds and the commitments set forth in the Memorandum of Agreement.

The next items were the semi-annual report of the Kentucky Asset/Liability Commission and the monthly financial report from the Kentucky Lottery Corporation.

Staff also provided information on proposed legislation relating to the committee's jurisdiction and on various capital projects.

Chairman Haydon said the first item of new business was a lease report by the Finance and Administration Cabinet presented by Jim Abbott, Director for the Division of Real Properties. Mr. Abbott reported lease amortizations under \$50,000 for seven state agency leases: PR-477 – Cabinet for Families and Children (Owsley County); PR-1621 – Cabinet for Families and Children (Franklin County); PR-3384 – Department of Corrections, Probation and Parole (Daviess County); PR-3769 – Cabinet for Families and Children, Protection and Permanency (Franklin County); PR-4150 – Cabinet for Families and Children, Disability Determinations (Jefferson County); and PR-4318 – Personnel Cabinet, Deferred Compensation Authority (Franklin County). The costs of the improvements ranged from \$2,450 to \$8,126. He pointed out these leasehold improvements are being reported later than the statutory 30-day timeframe (some improvements were made in 2000). The failure to disclose earlier was discovered when the Division conducted an internal audit to prepare for the implementation of the new real property database. Mr. Abbott said the delay in reporting the modifications was due to the retirement of key senior staff people. Chairman Haydon asked that these reports be done in a more timely basis and Mr. Abbott assured him they would do so.

Chairman Haydon then asked Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management, and Commissioner Armond Russ,

Department for Facilities Management, to discuss the project report submitted by the Finance and Administration Cabinet. Mr. Hintze reported the use of Emergency Repair, Maintenance and Replacement Account for engine repair of the Kentucky State Police's King Air aircraft. The plane was acquired a few years ago and is used by the State Police and the Governor. The engine needs to be replaced at a cost of \$350,000. Secretary Flanery has agreed to initially provide the money from the Emergency Account and the State Police have agreed to replenish this account on a dollar-for-dollar basis from operating funds. He indicated operating funds are available since the start date of a new cadet class was delayed, and vacancies will not be filled until that class is graduated. Coupled with budget reductions, the State Police have been very cautious in replacing staff so sufficient funds will be available.

Representative Wayne asked how State Police aircraft repairs are typically handled. Mr. Hintze responded that the agency pays the Division of Air Transport (Department of Military Affairs) if the repair is under \$100,000, which most ordinary repairs are under scheduled maintenance. However, in the case of repairs of over \$100,000, the Administration would typically request funding from the General Assembly. In the case of the King Air, the repair need was unforeseen.

Representative Wayne asked if any cost analysis has been done to see if it is cheaper to lease an aircraft rather than to own and repair. Mr. Hintze said the state does lease some aircraft, but this particular aircraft is a federal military surplus plane. Mr.

Hintze said the Division of Air Transport would be happy to share its analysis with the committee at any time.

Representative Wayne asked whether it would be good to have a pool for all aircraft maintenance. Mr. Hintze responded that the state does have such a pool, but this repair is simply too large to be absorbed by that pool.

Representative Wayne asked how using personnel vacancy monies will impact the agency. Mr. Hintze said it would have no impact since these monies would otherwise lapse. Chairman Haydon said if there were no other questions, this is a reportable action and no further action is necessary.

The Chairman then introduced Debby Milton from the Kentucky Infrastructure Authority (KIA). She reported on two items approved by the KIA Board. The first is the final grant award under the Certified Clean Communities Program to Bell County to clean up 67 dumps; total grant funds to Bell County are \$375,000. The second item is a Fund A – Wastewater Loan to the City of Lebanon Junction to construct a new wastewater treatment plant and extend sewer lines to 53 new customers. The total project amount is \$2.9 million with KIA participation of \$1.7 million. The city has instituted a 13% rate increase. Senator Jackson made a motion for approval of the two projects which was seconded by Representative Damron and passed by voice vote.

Ms. Milton then addressed the follow-up to the committee's question last month about high engineering fees for the North Logan Water District project. The ratio of engineering fees to construction costs for the project is 18%. KIA does not have any money in the engineering aspect of this project; federal funds under the Rural Development agency are the fund source. Ms. Milton said KIA has talked to the federal officials who are comfortable with these fees. Representative Wayne said the high ratio raises a continuing question about engineering fees. He said that the committee would be a good forum for further discussion and asked that the topic be put on a future agenda. Chairman Haydon asked staff to follow-up on the request.

Representative Damron said it was his understanding that the engineering fees are approved at the local level. Ms. Milton affirmed that the local community does approve them, along with the Rural Development agency. Representative Damron asked if there was a public discussion as to whether the fees were reasonable. He noted that the committee does need to be concerned about the use of public funds, but questioned whether the committee can be accountable for actions taken at the local governmental level. Ms. Milton indicated the committee should also take into consideration the contractual agreements between local communities and engineering firms. Those agreements are signed and the total amount of engineering fees are pre-approved. Representative Damron asked about local ethics laws. Ms. Milton said she thought they would apply to these projects. Chairman Haydon noted there would be further discussion on this issue and thanked the participants.

Ms. Milton also noted there are six pending assistance agreements for “2020 Fund” projects that KIA had not presented to the committee. She said there is a desire to draw down funds before the committee’s next meeting. KIA staff has completed the assistance agreements, and they are awaiting legal counsel review and signature, and review and signature of the Finance and Administration Cabinet Secretary. The projects are: Bluegrass ADD, \$245,000 for a regional water treatment feasibility study; City of Caneyville, \$361,000 for waterline extension, connection and water tower; Jessamine South Elkhorn Water District, \$50,000 for a water line extension; Morehead Utility Plant Board, \$500,000 for water treatment plant improvements; North Nelson Water District, \$40,632 for water line extension; and Logan/Todd Regional Water Commission, \$5,000,000 for construction of a regional water treatment facility. Senator Jackson made a motion to approve the projects which was seconded by Representative Damron and approved by voice vote.

Chairman Haydon then called on Tom Howard, Office of Financial Management, to present one new School Facilities Construction Commission (SFCC) bond issue for Meade County for \$835,000 for renovation of an elementary and middle school. There are no local tax increases associated with the project. Representative Wayne made a motion to approve the SFCC bond issue. The motion was seconded by Senator Buford and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Chairman Haydon noted there are five school bond issues that are 100% locally-funded: Bullitt County, Campbellsville Independent (Taylor County), Clay County, Jessamine County, and Pulaski County. Staff has reviewed each and reports that all disclosure information is included. No further action is required

Chairman Haydon said the committee's next meeting is scheduled for May 21. He also took the opportunity to recognize and congratulate Shawn Bowen, the committee's assistant, who is adopting a baby this week.

With there being no further business, the meeting adjourned at 8:55 a.m.